STERLING

RESOURCES LTD.

1999

About The Company

Sterling Resources Ltd. is a Calgary, Canada based energy company actively engaged in the exploration, development and production of crude oil and natural gas in selected areas of the world.

The Company was incorporated in 1979 as Peoples Oil Limited with activities in the United States and Western Canada. A group of new investors with extensive international experience acquired control of the Company in May 1996. A new strategy focusing on international growth was adopted and a change of name to Sterling Resources Ltd. took effect in 1997. Consistent with the new strategy, Sterling's existing Canadian assets were fully developed during 1997 and 1998, and subsequently sold to provide funding for international activities.

Sterling's future growth strategy focuses on international exploration and exploitation in basins that have known hydrocarbon potential for large, low cost reserves. Higher initial working interests will be taken, and then risk and financial exposure managed by obtaining industry partners.

Sterling currently has interests in seven international exploratory projects and is actively reviewing and negotiating several others.

Common shares of Sterling Resources Ltd. trade on the Canadian Venture Exchange under the symbol SLG.

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Annual General Meeting

The Annual General Meeting of Shareholders of Sterling Resources Ltd. will be held on Thursday, June 1, 2000 at 10:00 a.m. (Calgary time) in the President's Room of the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Montreal Trust at their earliest convenience.

MESSAGE
TO SHAREHOLDERS

Sterling Resources made considerable strides in international growth during 1999. Geological and geophysical work onshore the United Kingdom at PEDL 048 and PL 090, as well as Block XV offshore Romania advanced to the point where drilling locations can be chosen and wells have been planned for late 2000 and early 2001. In addition, two new petroleum agreements were signed in Denmark and onshore Romania, and three contracts are under negotiation in the Middle East, North Africa and East Asia. Our goal is to assemble an attractive portfolio of exploration acreage that provides the potential for discoveries of large, low cost oil and gas reserves. By the end of 1999, Sterling had working interests in approximately 3.1 million gross (1.9 million net) acres of exploration lands.

We believe it is important for a growing company to begin to operate a percentage of its projects. Accordingly, Sterling became an international operator for the first time in 1999, having taken over operatorship of Danish onshore License 5/97. The Company is also the operator of the onshore Romania South Craiova area, Block E III. In September, we strengthened our management team with the addition of Mr. Stewart Gibson as Chief Operating Officer and Managing Director of our wholly owned subsidiary in the United Kingdom. Mr. Gibson holds degrees in both geology and petroleum engineering, and brings to Sterling over 30 years of extensive international experience, including several executive positions. We have assembled a strong team of professionals who have specific expertise and experience in each of our areas of interest, thereby allowing Sterling to initiate further growth, take on new challenges and capitalize on opportunities.

Consistent with our strategy to focus on international oil and gas activities, the Company disposed of its remaining Canadian producing properties and applied the proceeds to working capital. Sterling's financial position remains healthy with positive working capital and no debt. Our mandate is to maintain financial flexibility, which includes farming out partial interests of projects at the appropriate time.

The year's financial results reflect Sterling's divestment of its Canadian producing properties in line with its strategy of investment in international exploration and exploitation. Oil and gas revenues for the year ended December 31, 1999 were $167,853 compared to $1,155,983 in 1998. This decrease was due to the disposition of the Company's remaining producing property in southern Alberta in the first quarter of 1999. Administrative expenses reflect the Company's increased emphasis on international projects. A net loss for the year was realized at $633,232 compared to an income of $139,346 for 1998. A gain on disposal of $33,370 in 1999 is attributed to the sale of the remaining Canadian properties.

Mr. Bruce Sherley resigned as President of Sterling in September. The Board appreciates the many contributions he made during his tenure with the Company.

The year 2000 promises to be active and exciting for our Company. Plans are proceeding for a two-well drilling program in the United Kingdom and a follow-up well to the Doina gas discovery offshore Romania. Technical studies for our other projects are ongoing in order to bring them to a drilling decision as quickly as possible, and we continue to pursue new opportunities in new areas in order to add to our portfolio of exploration projects.

Sterling has a well-defined strategy for long-term growth, and progress to date is promising. We wish to thank our shareholders for their continued patience and support. It takes time to build an international company, but Sterling is confident that the rewards will be well worth the wait.

On behalf of the Board of Directors,

Robert G. Welty
Chairman, Chief Executive Officer & President
February 29, 2000

Property Highlights

Sterling Resources currently holds approximately 3.1 million gross (1.9 million net) acres of exploration lands internationally.

	Licenses/ Permits	Working Interests	Gross Acres	Net Acres
United Kingdom – Onshore	PEDL 048	45.0%	66,000	29,700
	PL 090	37.5%	60,000	22,500
	EXL 295	15.0%	58,000	8,700
France – Onshore	Larcis Antin	33.3%	207,000	69,000
Denmark – Onshore	5/97	20.0%	100,000	20,000
Romania – Onshore	Block E III	100.0%	1,545,000	1,545,000
Romania – Offshore	Blks XIII & XV	20.0%	1,100,000	220,000

UNITED KINGDOM

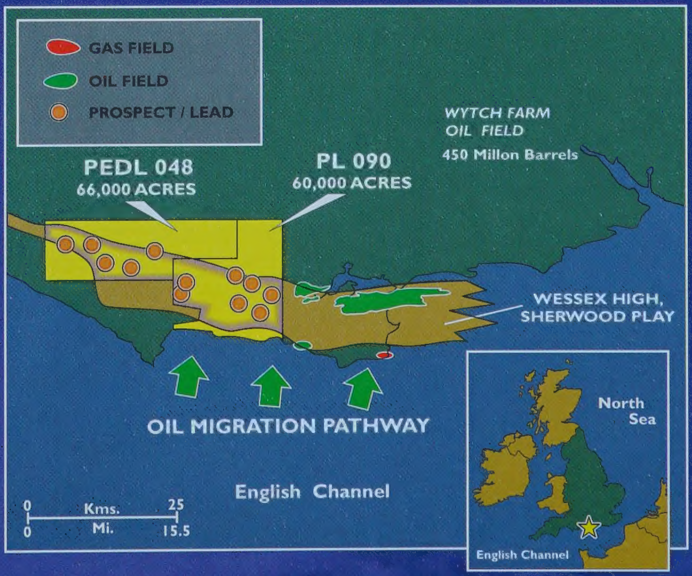
Sterling was initially attracted to the United Kingdom onshore by the excellent fiscal terms, good prospectivity and the interest and support provided by the Department of Trade and Industry to new entrants. To date, Sterling has acquired an interest in three licenses and will consider further opportunities in the ninth licensing round scheduled for 2000.

In 1998, an opportunity was identified to the west of the Wytch Farm oilfield along a geological trend that is considered to be under-explored. This area was pursued and awarded during the eighth licensing round, resulting in Sterling's 45% equity in PEDL 048. Shortly thereafter, Sterling acquired a 37.5% interest in an adjacent block, PL 090, together with a significant seismic database. These blocks provide the Company with a large equity position along the "Wessex High." This stable geological feature trending up dip from producing oil (450 million barrels at Wytch Farm), contains excellent quality, thick reservoir sections in the Bridport and Sherwood formations, and has several structures mapped from existing seismic.

The first stage in refining the many prospects was to complete an infill seismic program in PEDL 048, the processing of which was completed in early 1999. The new data was of excellent quality, providing the ability to map the deeper Sherwood reservoir directly and select a firm drilling location. Key sections of the regional database were reprocessed, resulting in a

Seismic acquisition operations onshore the United Kingdom.

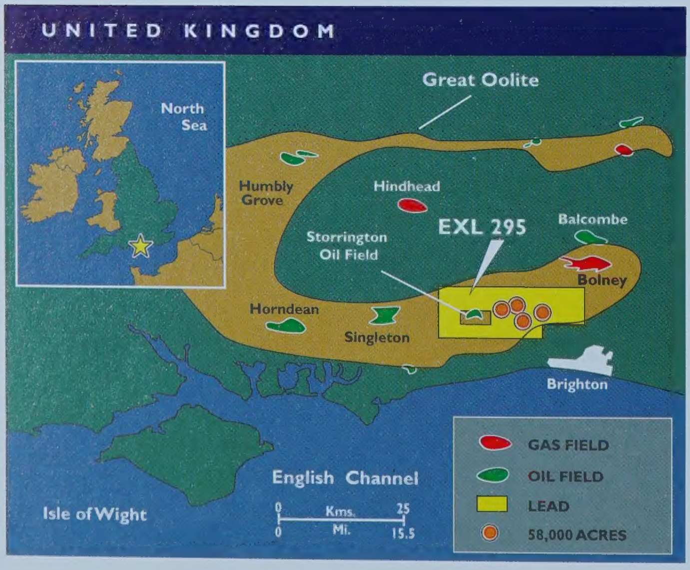
UNITED KINGDOM



refined structural interpretation for the entire area along the Wessex High. This new structural model was used in a reconstruction exercise in conjunction with a fill-and-spill migration model. The exercise demonstrated the potential for hydrocarbon movement from the source area to the south, into the structures mapped along the Wessex High. As part of the migration modelling, the size and maturity of the source area were demonstrated.

During the latter part of 1999, our technical efforts switched to PL 090. This resulted in the high grading of two Sherwood targets and planning a small infill seismic program to be conducted in early 2000 in order to select the optimum drilling location. The planning process has been implemented with the local authorities for drilling on both PEDL 048 and PL 090, which is scheduled to start in the fourth quarter of 2000.

In addition to selecting drilling locations, to date the Company's technical efforts have identified several additional leads, thereby firming up the original expectations for the area. Sterling is planning a surface geochemical survey as a low cost technique that has the potential to aid in the high grading of all prospects.



Sterling has a 15% interest in EXL 295 that surrounds the Storrington producing field. The block lies on the axis of the thickest part of the Great Oolite formation development, which is the primary production target in EXL 295 and the other 13 producing fields and discoveries that exist in the basin. In the nearby Storrington field, the Great Oolite is in excess of 200 feet thick and wells have tested at 700 barrels per day.

During 1999, technical efforts focused on an area within EXL 295 just to the east of the Storrington field with four prospects being mapped. Our efforts are now focusing on the remainder of the block and during 2000, the prospects will be ranked, further seismic requirements defined and collected, and the well planning procedure initiated.

France

Sterling has a right to a 33.33% working interest in the Larcis-Antin permit located in the Aquitaine Basin in southern France. The block lies on a trend with several producing oilfields and within 30 kilometres of the large Lacq and Meillon gas fields. The current drilling density is low and it is considered that significant prospectivity remains in a variety of trap types. In 1999, the operator concluded a geological review that has been used to formulate seismic acquisition and reprocessing activity planned for 2000.

Denmark

In late 1999, Sterling reached an agreement to earn a 20% working interest to License 5/97 onshore Denmark and

also assumed operatorship. The 100,000 acre license, which lies 30 kilometres north of Copenhagen, contains two significant structures defined by modern seismic data. The primary target is Cretaceous sandstone, present in a well drilled during 1959 some 12 kilometres west of the license. Jurassic sediments present to the east of the license provide a secondary target. Although oil-prone source rock exists in the general area, it is the primary technical risk in the license area.

Given the significant advances in techniques associated with surface and near surface geochemical hydrocarbon surveys, the joint venture has elected to complete a license-wide geochemical survey in the early part of 2000 in order to evaluate further the source and migration risk. The associated planning requirements have been initiated and results of the survey, which are expected mid-year, will be used to determine the next phase of activity.

Romania

ONSHORE – During 1999, Sterling successfully bid for the South Craiova Block E III onshore Romania. An agreement was signed with the National Agency for Mineral Resources of Romania in September and is currently progressing through normal government approvals. Sterling maintains a 100% interest in the 1.5 million acre block that is located in southern Romania between existing Romanian and Bulgarian producing fields. The area has been virtually unexplored below the Tertiary, and present seismic techniques will significantly improve the structural detail and firm up numerous existing leads. The area has several play types including Tertiary sands, reefal developments, Dogger sands and Triassic fault and erosional features. The initial activity will include reprocessing and interpretation of existing data, followed by a new seismic acquisition program to be conducted over a selected portion of the license. Work is scheduled to commence in the spring.

OFFSHORE - Sterling's interest in Blocks XIII and XV offshore Romania has increased to 20%. Paladin Resources is now the operator of the blocks, replacing ARCO in late 1999. The current joint venture group plans to conduct further appraisals of the Doina gas discovery and associated Doina trend, in addition to evaluations and the potential drilling of several significant prospects and leads that exist on both blocks.

The 2000 work program includes the completion of a high-resolution seismic program across the Doina trend and the main prospects. The survey is modelled on the local site survey data acquired prior to previous drilling and which proved effective in imaging the reservoir sands with greater clarity than conventional data. This survey

is expected to start in April 2000 and should provide the data required for the Doina appraisal well locations. Once the locations are chosen, environmental permitting and seabed surveys will take place and the first well is scheduled for drilling in early 2001.

In preparation for the commercialization of the Doina gas discovery, Sterling and Paladin have signed a gas marketing agreement with Enron under which Enron has acquired an option to purchase and market gas produced from Doina and other discoveries on the blocks. Enron has knowledge of and commitment to the Romanian energy market through their partnership with Petrom, the national oil company. This, together with Enron's expertise in risk management in the downstream sector, will greatly benefit the project.

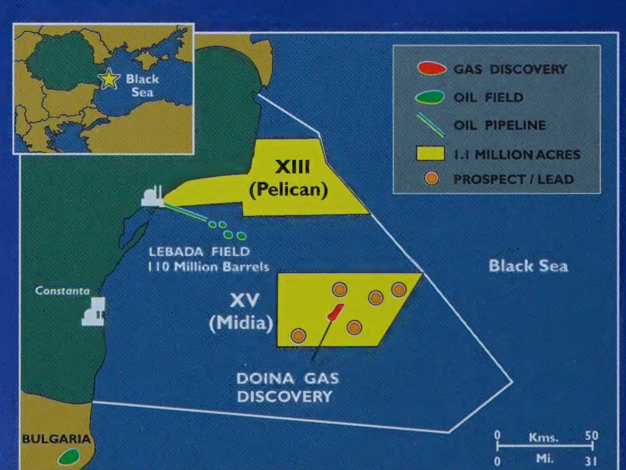
Ongoing Initiatives

Consistent with its strategy for ongoing growth, Sterling considers it appropriate to add to its portfolio, one or two new projects in new international areas. In addition, acquisition of a producing asset that holds some strategic significance to an existing project would be considered.

Specific areas of interest have been established to ensure our resources are directed only to countries with known significant hydrocarbon prospectivity. Areas currently being evaluated include the Middle East, North Africa, and East Asia, where Sterling's management team has extensive operating experience.

ROMANIA

ROMANIA - OFFSHORE



TO THE SHAREHOLDERS OF STERLING RESOURCES LTD.

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting policies outlined in the notes to the consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the consolidated financial statements.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the presentation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Accountants, has been engaged, as appointed by the shareholders, to examine the consolidated financial statements in accordance with generally accepted auditing standards and to provide an independent professional opinion.

The Audit Committee and the Board of Directors has reviewed the consolidated financial statements with management and with Ernst & Young LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Robert G. Welty
Chairman, Chief Executive Officer & President

Sherry L. Cremer
Treasurer & Assistant Corporate Secretary

TO THE SHAREHOLDERS OF STERLING RESOURCES LTD.

We have audited the consolidated balance sheets of Sterling Resources Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
February 24,2000

Consolidated
BALANCE SHEETS

As at December 31	1999 $	1998 $
ASSETS		
Current		
Cash and short term investments *(note 2)*	1,512,435	2,051,311
Accounts receivable	79,166	164,908
	1,591,601	2,216,219
Due from officers *(note 3)*	540,000	318,000
Abandonment trust fund *(note 4)*	–	11,387
	540,000	329,387
Capital assets *(note 5)*		
Petroleum and natural gas properties and equipment	3,911,668	4,329,730
Furniture and fixtures	39,142	38,315
	3,950,810	4,368,045
	6,082,411	6,913,651
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	119,324	514,129
Provision for future site restoration	–	24,000
Commitments and contingency *(notes 8 and 11)*		
Shareholders' equity		
Share capital *(note 7)*	7,807,728	7,653,410
Contributed surplus	66,479	–
Deficit	(1,911,120)	(1,277,888)
	5,963,087	6,375,522
	6,082,411	6,913,651

See accompanying notes

On behalf of the Board of Directors:

Robert G. Welty
Director

Raj K. Agrawal
Director

CONSOLIDATED
STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31	1999 $	1998 $
REVENUE		
Oil and gas, net of royalties	167,853	1,155,983
Gas processing	–	14,282
	167,853	1,170,265
EXPENSES		
Operating	31,099	537,029
General and administrative	825,259	744,270
Depletion and depreciation	66,850	478,781
	923,208	1,760,080
OTHER INCOME		
Interest	88,753	82,709
Gain on sale of capital assets	33,370	646,452
	122,123	729,161
Net income (loss) for the year	(633,232)	139,346
Deficit, beginning of the year	(1,277,888)	(1,417,234)
Deficit, end of the year	(1,911,120)	(1,277,888)
Net income (loss) per share	(0.08)	0.02

See accompanying notes

CONSOLIDATED
STATEMENTS OF CASH FLOWS

For the years ended December 31	1999 $	1998 $
OPERATING ACTIVITIES		
Net income (loss) for the year	(633,232)	139,346
Items not affecting cash		
Depletion and depreciation	66,850	478,781
Gain on sale of capital assets	(33,370)	(646,452)
Cash flow from operations	(599,752)	(28,325)
Change in non-cash working capital	(119,076)	58,468
Cash provided by (used in) operating activities	(718,828)	30,143
INVESTING ACTIVITIES		
Petroleum and natural gas properties and equipment	(871,004)	(1,555,939)
Furniture and fixture additions	(15,637)	(14,357)
Abandonment trust fund	11,387	42,893
Proceeds on sale of capital assets	1,055,559	1,636,808
Cash provided by investing activities	180,305	109,405
FINANCING ACTIVITIES		
Issue of common shares, net of share issue costs	314,647	228,505
Loan to officer	(315,000)	(225,000)
Cash provided by (used in) financing activities	(353)	3,505
Increase (decrease) in cash	(538,876)	143,053
Cash and short term investments, beginning of year	2,051,311	1,908,258
Cash and short term investments, end of year	1,512,435	2,051,311

See accompanying notes

1. Significant Accounting Policies

(a) Consolidation and investments

The consolidated financial statements include the accounts of Sterling Resources Ltd. (the "Company") and its wholly owned subsidiary Sterling Resources (UK) Ltd. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada.

Sterling Resources (UK) Ltd. is involved in the various countries in the exploration for oil and natural gas.

(b) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas properties and equipment are capitalized in cost centres on a country-by-country basis. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, and costs of drilling and equipping productive and nonproductive wells.

Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets except where such a disposal would alter the depletion and depreciation rate by more than 20%, in which case a gain or loss would be recognized.

Capitalized costs of proven petroleum and natural gas properties are depleted using the unit-of-production method based on estimated proven petroleum and natural gas reserves. For purposes of this calculation, these reserves are converted to a common unit of measure based on their relative energy content.

The net carrying value of the Company's oil and gas properties and equipment in each cost centre is limited to an estimated recoverable amount. This amount is calculated as the aggregate future net revenues from proved reserves plus the cost of unproved properties, net of impairment allowances, less future expenditures required to develop and produce the reserves and future site restoration costs. Future net revenues are calculated using prices in effect at the Company's year end without escalation or discounting.

The net carrying value of all developed cost centres, less related accumulated provisions for future site restoration costs and deferred income taxes, is further limited to the total estimated recoverable amount of all cost centres less future general and administrative costs, financing costs and income taxes.

Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at an annual rate of 30%.

(c) Future site restoration costs

Future site restoration and reclamation costs are accrued using the unit-of-production method. These costs are based on year-end estimates of the anticipated costs of site restoration.

During the year, $24,000 of future site restoration costs were applied to the book value of the property sales (charged to expense during 1998 – $14,771).

(d) Joint operations

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(e) Net income (loss) per share

Net income (loss) per share is calculated based on the weighted average number of common shares outstanding during the period. The effect of the exercise of outstanding stock options and warrants would be anti-dilutive.

(f) Measurement uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for future site restoration and reclamation costs are based on estimates. The limitation on the carrying value of petroleum and natural gas properties is based on estimates of proved reserves, production rates and oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates and those related to the future cash flows and estimated market values used to assess impairment, as well as the carrying value of unproven properties, are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

(g) Foreign currency translation

The Company's operations in the United Kingdom are translated using the temporal method. Transactions denominated in foreign currencies are translated at the exchange rate on the transaction date. Foreign currency denominated monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses are included in income.

2. Cash and Short Term Investments

Included in cash and short term deposits are $1,403,000 of bankers' acceptances (1998 – $1,781,000) with maturities of less than 90 days, bearing interest between 4.80% and 5.25% (1998 – 4.88% and 5.10%).

3. Related Party Transactions

In 1996, the Company entered into a consulting agreement with a former officer and director of the Company whereby the Company agreed to pay a monthly consulting fee of $4,167 until May 1998. For the year ended December 31, 1999 consulting fees paid totaled nil (1998 – $20,835).

During 1997, the Company loaned $168,000 bearing interest at 5% annually payable monthly to an officer of the Company for purposes of acquiring common shares in the Company. The entire balance outstanding as at December 31, 1998 of $93,000 was repaid during 1999.

During 1998, the Company loaned $225,000 to an officer of the Company for purposes of acquiring common shares in the Company. The loan is interest free and the principal sum is repayable in full on January 27, 2002.

During 1999, the Company loaned $315,000 to an officer of the Company for purposes of acquiring common shares in the Company. The loan is interest free and the principal sum is repayable in full on September 1, 2003.

4. Abandonment Trust Fund

All amounts held in trust were released upon the sale of all remaining Alberta properties during 1999.

5. Capital Assets

(a) Petroleum and natural gas properties and equipment

	1999 **$**	1998 $
Canadian oil and gas properties and equipment	**–**	1,761,938
Less accumulated depletion and depreciation	**–**	(864,353)
	–	897,585
Romanian oil and gas properties	**2,505,326**	2,367,216
United Kingdom oil and gas properties	**1,389,749**	1,064,929
French oil and gas properties	**9,526**	–
Danish oil and gas properties	**7,067**	–
	3,911,668	3,432,145
	3,911,668	4,329,730

No general and administrative costs were capitalized in 1999 or 1998.

In February 1998, the Company sold certain of its producing reserves in Canada for $1,800,000. After deducting net adjustments and other disposal costs of $181,000, the gain on disposal amounted to approximately $646,000.

In March 1999, the Company sold all of its remaining producing reserves in Canada for $1,600,000. After deducting net adjustments and other disposal costs of $548,000, the gain on disposal amounted to approximately $33,000.

All remaining cost centres are in the pre-development stage and as such the costs are not subject to depletion. The recovery of the costs incurred to date is ultimately dependent upon discovering commercial quantities of hydrocarbons. The likelihood of such a discovery is not determinable at this time.

(b) Furniture and fixtures

	1999 **$**	1998 $
Furniture and fixtures	**64,755**	56,511
Less accumulated depreciation	**(25,613)**	(18,196)
	39,142	38,315

6. Income Taxes

The provision for income taxes recorded on the financial statements differ from the amounts which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

	1999 **$**	1998 $
Computed income taxes (recovery) at the statutory rate of 44.62%	**(282,549)**	62,176
Non-deducted royalties and other Crown payments	**–**	42,400
Resource allowance	**–**	(3,400)
Prescribed resource loss	**3,467**	–
Benefit of loss in foreign subsidiary not recognized	**84,710**	–
Tax benefits of losses not (previously) recognized	**194,372**	(101,176)
	–	–

At December 31, 1999, the Company has the following balances available to be claimed against future income for tax purposes:

	$
Undepreciated capital cost	86,000
Canadian exploration expenditures	228,000
Unamortized share issue costs	142,000
United Kingdom deductible expenditures	1,683,000
Foreign exploraton and development expenditures	2,226,000

In addition, as at December 31, 1999, the Company had the following non-capital losses available to reduce future Canadian taxable income expiring as follows:

	$
2000	348,000
2001	303,000
2002	356,000
2003	17,000
2004	913,000
2005	–
2006	182,000
Total	2,119,000

The benefit of these losses has not been recognized in these financial statements.

7. Share Capital

(a) Authorized

Unlimited common shares without nominal or par value.

(b) Issued

	No. of Shares #	Amount $
Common shares		
Balance, December 31, 1997	7,710,003	7,424,905
Exercise of stock options	8,333	3,505
Issued for cash	250,000	225,000
Balance, December 31, 1998	7,968,336	7,653,410
Repurchased for cash	(166,000)	(159,439)
Issued for cash	700,000	315,000
Share issue costs	–	(1,243)
Balance, December 31, 1999	8,502,336	7,807,728

During 1998, the Company issued 250,000 common shares at $0.90 in a private placement to an officer of the Company. Total proceeds to the Company were $225,000.

During 1999, the Company issued 700,000 common shares at $0.45 in a private placement to an officer of the Company. Total proceeds to the Company were $315,000.

During 1999, the Company also repurchased and cancelled 166,000 shares at $0.56. The weighted average cost of these shares was $159,000 and the excess of cost over repurchase price of approximately $66,000 was set up as contributed surplus.

As at December 31, 1999 and 1998, 3,105,000 warrants were outstanding. Each warrant entitles the holder to purchase one common share at a price of $1.75 per share which expire on March 1, 2000.

(c) Stock options

The Company has established a stock option plan whereby the Company may grant options to its directors, officers and employees for up to 10% of the outstanding listed common shares (on a non-diluted basis). The exercise price of each option equals the market price of the Company's shares on the date of the grant less any applicable discount approved by the Board of Directors and the Canadian

Venture Exchange. The option's maximum term is five years. The stock options vest over the initial three years. No compensation expense is recognized for the plan when stock options are issued or exercised. Any consideration paid on exercise of stock options is credited to share capital.

The following is a continuity of stock options outstanding for which shares have been reserved:

	1999		1998	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price
Opening balance	**741,667**	**$0.64**	725,000	$0.65
Granted	**307,500**	**$0.41**	25,000	$0.42
Exercised	**–**	**–**	(8,333)	$(0.42)
Cancelled	**(240,000)**	**$(0.67)**	–	–
Ending balance	**809,167**	**$0.54**	741,667	$0.64

8. Commitments

The Company is committed to an operating lease for office premises which expires August 1, 2002. Future payments are as follows:

	$
2000	53,602
2001	53.458
2002	31,184

9. Financial Instruments

The fair market values of the Company's financial instruments, including cash and short term investments, accounts receivable, and accounts payable and accrued liabilities approximate their carrying value.

10. Segmented Information

Sterling is a publicly traded energy company engaged in the exploration, development and production of crude oil and natural gas in selected areas of the world. The Company's activities are conducted in three geographic segments: Canada, United Kingdom and other international locations. The other international segment includes operations in France, Denmark, Romania onshore and Romania offshore.

December 31, 1999	Other International $	United Kingdom $	Canada and Corporate $	Total $
Revenues	–	–	167,853	167,853
Expenses	–	189,016	734,192	923,208
Other income	–	1,000	121,123	122,123
Net loss	–	188,016	445,216	633,232
Capital expenditures	154,704	324,820	200,643	680,167
Total assets	2,521,919	1,474,948	2,085,544	6,082,411

December 31, 1998	Other International $	United Kingdom $	Canada and Corporate $	Total $
Revenues	–	–	1,170,265	1,170,265
Expenses	–	67,596	1,692,484	1,760,080
Other income	–	1,779	727,382	729,161
Net income (loss)	–	(65,817)	205,163	139,346
Capital expenditures	293,498	989,237	259,281	1,542,016
Total assets	2,367,216	1,064,929	3,481,506	6,913,651

Revenues from one customer in the Canadian segment represents approximately 85% of the Company's total revenues.

11. YEAR 2000 CONTINGENCY

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date to the year 2000 has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company including those related to customers, suppliers, or other third parties, have been fully resolved.

Corporate Information

Sterling Resources Ltd.

Directors

Robert G. Welty
Chairman, Chief Executive Officer & President
Sterling Resources Ltd.
Chief Executive Officer & President
Escondido Resources (International) Ltd.

Raj K. Agrawal
President
NRG Engineering Ltd.

J. Richard Harris
Independent Businessman

Philip C. Swift
President and Managing Director
ARC Financial Corporation

Officers

Robert G. Welty
Chairman, Chief Executive Officer & President

Stewart G. Gibson
Executive Vice-President & Chief Operating Officer

Rodger D. Conner
Corporate Secretary

Sherry L. Cremer
Treasurer & Assistant Corporate Secretary

Corporate Headquarters

Sterling Resources Ltd.

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Facsimile: (403) 215-9279
E-Mail: info@sterling-resources.com
Website: www.sterling-resources.com

Auditors

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Calgary, Alberta

Banker

The Royal Bank of Canada
Calgary, Alberta

Legal Counsel

Conner & Conner
Calgary, Alberta

Registrar and Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Montreal Trust Company of Canada
Suite 600, 530 Eighth Avenue S.W.
Calgary, Alberta T2P 3S8
Attn.: Stock Transfer Department
Telephone: (403) 267-6800

Stock Exchange Listing

Canadian Venture Stock Exchange
Trading Symbol: SLG

Sterling Resources (UK) Ltd.

(wholly owned)

Directors

Robert G. Welty
Chairman, Chief Executive Officer & President
Sterling Resources Ltd.
Calgary, Canada

Stewart G. Gibson
Managing Director
Sterling Resources (UK) Ltd.
Executive Vice-President & Chief Operating Officer
Sterling Resources Ltd.
Odiham, United Kingdom

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